

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT**

AUDIT REPORT

**For the Year Ended
June 30, 2012**



**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
For the Year Ended June 30, 2012
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**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2012**

The Magnolia School District (the District) operates under a locally elected five-member Board form of government and provides educational services to grades K-6 as mandated by the State. The Magnolia School District was formed in 1895. The District is located in Orange County, primarily in the City of Anaheim. The District currently operates nine elementary schools.

On November 2, 2010, registered voters of the District authorized by more than 55% the issuance of \$16,300,000 of general obligation bonds to improve the quality of education, upgrade technology, repair leaky roofs, modernize classrooms, restrooms and school facilities, make health and safety improvements, make handicapped accessibility upgrades, install solar panels to improve energy efficiency, replace temporary portable classrooms, and increase campus security.

On May 19, 2011, the District issued Series 2011 of the Election 2010 General Obligation Bonds in the amount of \$6,498,305, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2012, Series 2011 General Obligation Bonds totaling \$6,498,305 were still outstanding, excluding accreted interest of \$347,955.

Measure I is a Proposition 39 bond. The passage of Proposition 39 on November 7, 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing, continued
June 30, 2012**

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2012:

Name	Representation
Gary Shields, <i>Chair</i>	Member-at-Large
Alyson Crockett, <i>Vice Chair</i>	Parent-Teacher Organization
Leonard Lahtinen	Senior Citizen Organization
Jasmine LaBurn	Bona Fide Taxpayers' Association
Daisy Tan	Parent of MSD Student
Vacant*	Business Organization
Vacant*	Member-at-Large

** The District is currently seeking candidates to fill this position.*

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Heather Daud

Michael Ash, CPA

Erin Sacco Pineda, CPA

Measure I Citizens' Bond Oversight Committee and
Governing Board Members of Magnolia School District
Anaheim, California

We have audited the accompanying balance sheet of the Measure I Bond of Magnolia School District and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Magnolia School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Measure I Bond, consisting of the net construction proceeds of the Measure I Bond as issued by the Magnolia School District and are not intended to present fairly the financial position of Magnolia School District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Bond of Magnolia School District as of June 30, 2012, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013 on our consideration of the Magnolia School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements referred to above. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
January 29, 2013

FINANCIAL SECTION

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Balance Sheet
June 30, 2012

ASSETS

Cash in county treasury	\$	3,272,757
Accounts receivable		1,373
Due from other funds		609
Total Assets	\$	3,274,739

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	216,890
Due to other funds		267
Total Liabilities		217,157

Fund Balance

Restricted for capital projects		3,057,582
Total Fund Balance		3,057,582
Total Liabilities and Fund Balance	\$	3,274,739

The notes to financial statements are an integral part of this statement.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2012**

REVENUES	
Interest revenue	\$ 27,409
	<hr/>
Total Revenues	27,409
	<hr/>
EXPENDITURES	
Facilities acquisition and construction	3,396,126
	<hr/>
Total Expenditures	3,396,126
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,368,717)
	<hr/>
Net Change in Fund Balance	(3,368,717)
Fund Balance, July 1, 2011	6,426,299
	<hr/>
Fund Balance, June 30, 2012	\$ 3,057,582
	<hr/>

The notes to financial statements are an integral part of this statement.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Magnolia School District (the “District”) was formed in 1895. The District is located in Orange County, primarily in the City of Anaheim. The District currently operates nine elementary schools. There were no changes in the boundaries of the District during the current year.

On November 2, 2010, registered voters of the District authorized the issuance of \$16,300,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction, and improvement of school facilities.

On May 19, 2011, the District issued \$6,498,305 of general obligation bonds, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2012, Series 2011 General Obligation Bonds totaling \$6,498,305 were still outstanding, excluding accreted interest of \$347,955.

An advisory committee to the District’s Governing Board and Superintendent, called the Citizens’ Bond Oversight Committee, was established. The Committee’s oversight goals include: actively review and report on the proper expenditure of taxpayers’ money for school construction; monitor District compliance with Article XIII A of the California Constitution and advise the public accordingly; provide for communication with and from the community on all issues related to Measure I Bond; and report to the Magnolia School District Board of Education at least once per year on all Measure I activities.

The deposit and use of bond proceeds are accounted for in a separate sub-fund of the District’s Building Fund. The statements presented are for the individual Measure I Bond and are not intended to be a complete presentation of the District’s financial position or results of operations.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collectible within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

E. Deposits and Investments

In accordance with Education Code Section 41001, the District maintains a portion of its cash in the Orange County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned*. The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

I. Interfund Borrowing

The District's policy is to comply with Education Code Section 42603 which permits temporary borrowing between funds so long as the temporary loan is repaid in the same fiscal year; or in the following fiscal year if the transfer took place within the final 120 calendar days of a fiscal year. The borrowing shall occur only when the fund or account receiving the money will earn sufficient income, during the current fiscal year, to repay the amount transferred. In addition, no more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be transferred.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH

Cash as of June 30, 2012 consisted of \$3,272,757 deposited in the Orange County Treasury Investment Pool.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH (continued)

General Authorizations

The authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Orange County Investment Pool with a fair value at June 30, 2012 of approximately \$3,276,830 and an amortized book value of \$3,272,757. The weighted average maturity for the Orange County Investment Pool is 359 days as of June 30, 2012.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This may be measured by the assignment of a rating by a nationally recognized credit rating organization. The Orange County Investment Pool is rated AAA by Standard & Poor's.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012, in the amount of \$1,373, represents interest earnings due from the Orange County Investment Pool for the quarter ended June 30, 2012.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 4 – INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related costs as reimbursement. All other interfund transactions are treated as transfers.

Due From/Due To Other Funds

- Measure I Building Fund due to the General Fund in the amount of \$267, as of June 30, 2012, for year end PERS related costs.
- General Fund due to the Measure I Building Fund in the amount of \$609, as of June 30, 2012, for year end payroll adjustments.

NOTE 5 – MEASURE “I” GENERAL OBLIGATION BONDS

Following is a summary of the District’s outstanding Measure I general obligation bonds, and unamortized premiums on issuance of the Measure I general obligation bonds, as of June 30, 2012:

	Beginning Balance July 1, 2011	Additions	Deletions	Ending Balance June 30, 2012	Due Within One Year
General obligation bonds	\$ 6,498,305	\$ -	\$ -	\$ 6,498,305	\$ 25,000
Accreted interest	47,272	300,683	-	347,955	-
Premium	263,630	-	8,788	254,842	8,788
Totals	\$ 6,809,207	\$ 300,683	\$ 8,788	\$ 7,101,102	\$ 33,788

General Obligation Bond Summary

	Date of Issue	Current Interest Rate %	Yield to Maturity %	Maturity Date	Amount of				Outstanding June 30, 2012
					Original Issue	Outstanding July 1, 2011	Additions	Deletions	
Series 2011	5/19/2011	2.00-4.75%	6.23-7.26%	2041	\$ 6,498,305	\$ 6,498,305	\$ -	\$ -	\$ 6,498,305
Totals					\$ 6,498,305	\$ 6,498,305	\$ -	\$ -	\$ 6,498,305

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – MEASURE “I” GENERAL OBLIGATION BONDS (continued)

Election 2010, Series 2011

On November 2, 2010, registered voters of the District authorized the issuance of \$16,300,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities.

- On May 19, 2011, the District issued \$6,498,305 of general obligation bonds, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2012, Series 2011 General Obligation Bonds totaling \$6,498,305 were still outstanding, excluding accreted interest of \$347,955. The remaining unamortized premium received on issuance of the bonds amounted to \$254,842 as of June 30, 2012.

The annual requirements to amortize the Measure I general obligation bonds payable of the District, outstanding as of June 30, 2012, are as follows:

Year ended June 30,	Principal	Interest	Total
2013	\$ 25,000	\$ 114,279	\$ 139,279
2014	75,000	97,688	172,688
2015	-	96,188	96,188
2016	35,000	96,188	131,188
2017	55,000	95,488	150,488
2018-2022	465,000	775,638	1,240,638
2023-2027	1,148,289	1,032,249	2,180,538
2028-2032	1,821,302	1,888,116	3,709,418
2033-2037	1,562,450	6,483,989	8,046,439
2038-2042	1,311,264	8,464,899	9,776,163
Total	\$ 6,498,305	\$ 19,144,722	\$ 25,643,027

NOTE 6 – CONSTRUCTION COMMITMENTS

There were no outstanding construction commitments related to the Measure I Bond as of June 30, 2012.

SUPPLEMENTARY INFORMATION

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Budgetary Comparison Schedule
For the Year Ended June 30, 2012**

	Final Budget 2011-12	Actuals 2011-12	Variance
Revenues and Other Financing Sources			
Interest revenue	\$ 30,000	\$ 27,409	\$ (2,591)
Total Revenues and Other Financing Sources	<u>30,000</u>	<u>27,409</u>	<u>(2,591)</u>
Expenditures and Other Financing Uses			
Classified salaries	147,943	142,742	5,201
Employee benefits	44,544	41,059	3,485
Contracted services	437,513	85,968	351,545
Capital outlay	5,826,294	3,126,357	2,699,937
Total Expenditures and Other Financing Uses	<u>6,456,294</u>	<u>3,396,126</u>	<u>3,060,168</u>
Change in Fund Balance	(6,426,294)	(3,368,717)	3,057,577
Beginning Fund Balance	<u>6,426,299</u>	<u>6,426,299</u>	<u>-</u>
Ending Fund Balance	<u>\$ 5</u>	<u>\$ 3,057,582</u>	<u>\$ 3,057,577</u>

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Expenditures by Project
For the Year Ended June 30, 2012**

Following is a summary of expenditures by Measure I project for the year ended June 30, 2012:

<u>Measure I Project</u>	<u>2011-12 Expenditures</u>
School Fencing	\$ 171,081
Restrooms Phase II ADA	383,462
School Playgrounds	2,081,400
School Technology Upgrades	490,515
District-Wide Bond Management	269,668
Total Expenditures	<u>\$ 3,396,126</u>

**OTHER INDEPENDENT AUDITORS'
REPORTS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Christy White, CPA

John Dominguez, CPA, CFE

Heather Daud

Michael Ash, CPA

Erin Sacco Pineda, CPA

Measure I Citizens' Bond Oversight Committee and
Governing Board Members of
Magnolia School District
Anaheim, California

We have audited the financial statements of the Measure I Bond Building Fund of Magnolia School District (the "District") as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated January 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magnolia School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Magnolia School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magnolia School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure I Proposition 39 Bond Building Fund of Magnolia School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Magnolia School District's Board, the Measure I Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Magnolia School District, and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
January 29, 2013

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

John Dominguez, CPA, CFE

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Measure I Citizens' Bond Oversight Committee and
Governing Board Members of
Magnolia School District
Anaheim, California

We have audited the financial statements of the Measure I Bond of the Magnolia School District (the District) as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated January 29, 2013. Our audit was made in accordance with generally accepted auditing standards in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measure I General Obligation Bonds for the year ended June 30, 2012. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that the proceeds of the sale of the Measure I Bonds were only used for the purposes set forth in the ballot and not for any other purpose, such as teacher and administrative salaries.

To meet our objectives audit tests were performed and included, but were not limited, to the following:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or abuse regarding Measure I projects
- Ensure adequate separation of duties exists in the accounting for Measure I funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper sub-fund

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2011-12 financial statement balances for the Measure I Bond funds are not materially misstated.

Results of Procedures Performed:

The results of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Measure I funds expended for fiscal year ended June 30, 2012 were for valid facilities acquisition and construction purposes. CWA toured three construction project sites where 2011-12 construction work occurred, including Lord Baden-Powell, Robert M. Pyles, and Dr. Albert Schweitzer school sites.

Results of Procedures Performed:

CWA viewed the playground projects at each school site as of April 19, 2012, which included equipment upgrades and resurfacing. In addition, we viewed security fencing construction at each site we toured. We also viewed technology improvements, which included the installation of 50 SMART Boards. Playground and security fencing projects are completed as of June 30, 2012.

Tests of Expenditures

Procedures Performed:

We tested \$1,885,533, or 56% of the 2011-12 expenditures for validity, allowability and accuracy. Expenditures sampled in our test included payments made to the construction management company, subcontractors and other vendors. We performed testing to verify that administrative salaries charged to Measure I were appropriate and allowable.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Measure I ballot measure, Facilities Master Plan, and applicable State laws and regulations without exception.

Tests of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2012, we performed testing of one contract to determine compliance with District policy and the provisions of the California Public Contract Code. We determined in our testing whether the proper bidding and approval procedures were followed for the contracts tested.

- Project: Site Work and Playground Improvements
Original Contract Award Amount: \$2,342,548

Results of Procedures Performed:

We found that the contract tested followed proper bidding procedures, and was awarded to the lowest responsible bidder.

Our audit of compliance made for the purposes set forth in the second and third paragraph of this report would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure I Bond, for the year ended June 30, 2012, as listed and tested above. However, the results of our auditing procedures disclosed a non-compliance with education code, as described in the accompanying schedule of findings and responses.

Magnolia School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Magnolia School District's Board, the Citizens' Bond Oversight Committee, management, and the taxpayers of Magnolia School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
January 29, 2013

**FINDINGS AND RECOMMENDATIONS
SECTION**

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2012**

FINDING #2012-1: CITIZENS' OVERSIGHT COMMITTEE MEMBERSHIP COMPOSITION

Criteria: Pursuant to Education Code section 15282, the citizens' oversight committee shall consist of at least seven members, comprised of an active member of a business organization, an active member of a senior citizens' organization, a member from a bona fide taxpayers' organization, a member who is the parent or guardian of a child enrolled in the district and a member who is both a parent or guardian of a child enrolled in the District and active in a parent-teacher organization. In addition, no employee or official of the District shall be appointed to the citizens' oversight committee.

Condition: In our review of the composition of the citizens' oversight committee for Measure I, despite District efforts to advertise for and recruit members, we found that the committee lacked representation in two required positions. At June 30, 2012, the committee lacked a member of a business organization, and an at-large member of the community to meet the requirement of at least seven members.

Cause: Lack of oversight by the Measure I Citizens' Oversight Committee and a lack of interest shown by the community.

Effect: The Measure I Citizens' Oversight Committee is out of compliance with Education Code section 15282.

Perspective: Through interviews and inquiry with District management, we noted the previously mentioned deficiencies in the composition of the Citizens' Oversight Committee.

Recommendation: To comply with Education Code section 15282 and to effectively monitor the Measure I projects, the Citizens' Oversight Committee needs to add two additional members meeting the aforementioned representational requirements.

District Response: The District is making every effort to recruit members to comply with the Education Code; however, we cannot mandate that citizens volunteer. We have documented our efforts, per recommendation of our Bond Counsel Jones Hall. Every effort to obtain the additional members in their role on the Oversight Committee will continue to be made with the hope that we will find volunteers who will fulfill these roles.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012**

There were no findings or questioned costs for the year ended June 30, 2011.